

FDIC State Profile

Winter 2005

Oklahoma

GM plant closing highlights trend in Oklahoma manufacturing employment and wages.

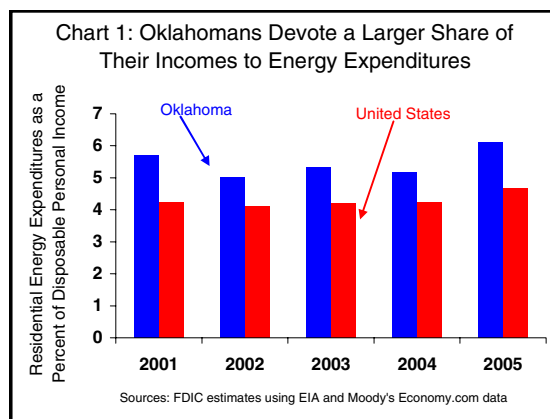
- General Motors' (GM) announcement of its intention to close its Oklahoma City plant (approximately 2,400 employees) continues the trend of high-paying manufacturing jobs leaving the state. The average salaried GM employee earns approximately \$69,500 per year.
- Favorably, the growing demand for workers in the state's high-paying oil and natural gas industries, resulting from rising energy prices, may mitigate some of these job losses.

Oklahoma employment remains short of its second quarter 2001 peak.

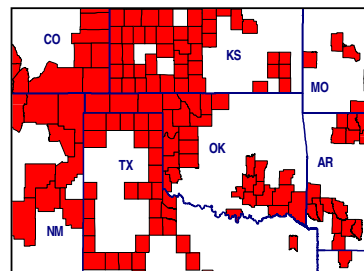
- As of third quarter 2005, about three in five states across the nation had recovered all of the jobs lost during the recession of 2001.¹ Oklahoma, however, is still approximately 12,700 jobs short of its employment peak. Given the state's current momentum, a new peak will likely occur sometime in early 2006.
- Almost three-fifths of the new jobs created since the recession have been in high-paying industries (above the state average of \$34,300 annual wage), with a majority in the government sector. Additionally, the mining sector added 3,300 well-paying jobs.
- Of the jobs created that pay below the state average, many were concentrated in the education/health services and leisure/hospitality services sectors.

Rising fuel prices squeeze Oklahoma consumers.

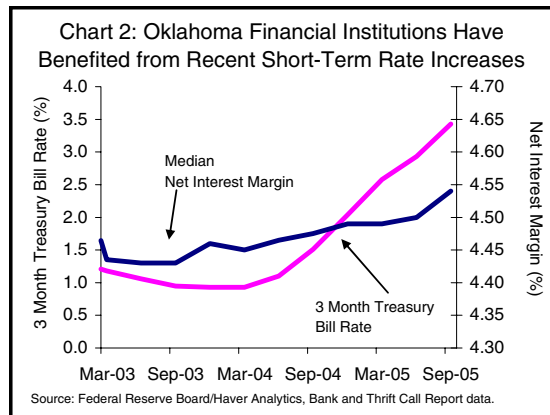
- Rising fuel prices in Oklahoma have the combined effect of increasing mining employment while constraining consumer spending.
- The vast majority of Oklahomans face a winter season of rising heating costs and moderate income gains. Residential heating costs in Oklahoma are estimated at 6.1 percent of personal disposable income in 2005 compared to 4.7 percent for the nation (see Chart 1). As



Map 1: Many Oklahoma Counties Are Vulnerable to Potential Declines in Agricultural Subsidies.



Note: Shaded areas indicate counties most susceptible to risk relative to declining agricultural subsidy payments. Sources: United States Department of Agriculture/Economic Research Service, U.S. Census Bureau, and FDIC estimates.



¹Mark McMullen, "Back to Peak," Moody's Economy.com, October 25, 2005.

a result, higher fuel costs may affect consumer spending to a greater degree in Oklahoma than in the nation.

Changes in legislation could affect farmland values in Oklahoma.

- Farmland values in Oklahoma have increased 20 percent since 2000.² Recent studies indicate that government subsidy programs have strongly contributed to increased land values.³
- However, there is increasing pressure to reduce agricultural subsidies both from global trading partners and domestic budget constraints.
- Counties in Oklahoma and surrounding states that appear most vulnerable to any reduction in agricultural subsidies rely heavily on government subsidies, have slower population growth, fewer natural amenities, and are not near metropolitan areas (see Map 1).

Oklahoma insured institutions post impressive results for the first nine months of 2005.

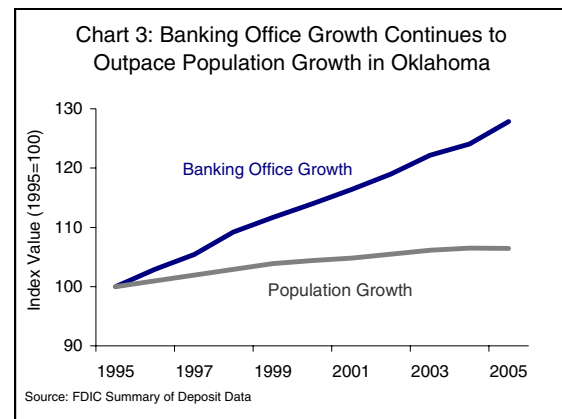
- During the nine months ending September 30, 2005, banks and thrifts headquartered in the state reported a median return on assets ratio of 1.35 percent, one of the highest returns in the past ten years and 28 basis points above the U.S. median for the same period.

Short-term interest rate increases have benefited financial institutions so far, but concerns remain.

- There is a significant positive correlation between short-term interest rates and Oklahoma financial institution median net interest margins, suggesting that the state's institutions are relatively asset sensitive and have benefited from recent short-term interest rate hikes (see Chart 2).
- However, longer-term rates have remained fairly level, resulting in a flattening yield curve that could become problematic. The spread between ten-year U.S. Treasury notes and three-month U.S. Treasury bills is the lowest level since March 31, 2001, just prior to the last recession. Since a flattening yield curve has historically been a problem for bank earnings, recent decreases in spread imply increasing pressure on future margins.
- According to a recent national survey of bank executives, 56 percent said they expect interest rates to have a negative impact on earnings in the near term, up from 31 percent a year earlier.⁴

Oklahoma branch growth continues to exceed population expansion.

- Oklahoma branch growth has remained strong for the past decade, exceeding population growth in every year (see Chart 3). This trend has accelerated in recent years as large financial institutions pursue expectations of strong economic growth in the Sooner State.
- Branch growth in Oklahoma was 3.06 percent for the twelve months ending June 30, 2005, the twelfth highest rate in the United States. The **Lawton** metro area reported the fastest growing branch growth in the state (7.9 percent), ranking the 27th fastest of U.S. metro markets.



²Economic Research Service, United States Department of Agriculture.

³A detailed discussion of this analysis can be found in the Fall 2005 FDIC Outlook, http://www.fdic.gov/bank/analytical/regional/ro20053q/na/2005fall_04.html.

⁴American Banker Financial Services Executive Forum, third quarter 2005.

Oklahoma at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	1.8%	1.2%	0.8%	-1.9%
Manufacturing (9%)	-0.5%	-0.6%	0.0%	-1.0%	-6.0%
Other (non-manufacturing) Goods-Producing (6%)	2.3%	2.4%	0.4%	0.5%	0.3%
Private Service-Producing (63%)	1.8%	1.5%	0.9%	0.8%	-1.5%
Government (21%)	3.0%	3.7%	3.0%	2.0%	-1.7%
Unemployment Rate (% of labor force)	4.4	4.4	4.7	4.9	5.6

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	6.7%	5.2%	5.3%	3.3%
Single-Family Home Permits	18.5%	16.0%	0.7%	6.3%	13.8%
Multifamily Building Permits	111.7%	96.9%	-68.2%	-15.4%	42.9%
Existing Home Sales	12.9%	9.4%	4.7%	10.0%	7.0%
Home Price Index	6.4%	5.6%	4.6%	4.7%	4.3%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	11.11	9.22	7.78	7.60	7.53

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	274	274	273	274	278
Total Assets (in millions)	61,057	59,842	55,556	56,422	56,782
New Institutions (# < 3 years)	5	5	3	4	4
Subchapter S Institutions	149	149	141	141	136

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.00	1.91	2.31	2.17	2.37
ALLL/Total Loans (median %)	1.19	1.23	1.24	1.19	1.25
ALLL/Noncurrent Loans (median multiple)	1.40	1.62	1.37	1.61	1.29
Net Loan Losses / Total Loans (median %)	0.13	0.08	0.13	0.20	0.26

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.82	9.64	9.70	9.52	9.57
Return on Assets (median %)	1.37	1.34	1.41	1.21	1.15
Pretax Return on Assets (median %)	1.62	1.59	1.58	1.43	1.43
Net Interest Margin (median %)	4.57	4.50	4.50	4.49	4.45
Yield on Earning Assets (median %)	6.43	6.20	5.82	5.76	6.02
Cost of Funding Earning Assets (median %)	1.86	1.64	1.30	1.30	1.52
Provisions to Avg. Assets (median %)	0.11	0.11	0.12	0.16	0.19
Noninterest Income to Avg. Assets (median %)	0.90	0.89	0.95	0.93	0.95
Overhead to Avg. Assets (median %)	3.32	3.32	3.29	3.34	3.41

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	62.4	62.0	59.7	60.9	60.0
Noncore Funding to Assets (median %)	20.2	19.4	19.1	19.0	17.4
Long-term Assets to Assets (median %, call filers)	12.8	13.7	16.1	13.9	15.0
Brokered Deposits (number of institutions)	56	56	47	50	38
Brokered Deposits to Assets (median % for those above)	3.8	3.6	2.3	3.0	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	90.5	89.6	87.3	88.7	89.5
Commercial Real Estate	125.0	122.9	114.6	119.9	105.9
<i>Construction & Development</i>	17.4	15.1	13.8	13.8	15.0
<i>Multifamily Residential Real Estate</i>	0.2	0.0	0.0	0.0	0.0
<i>Nonresidential Real Estate</i>	96.0	98.1	91.8	97.1	84.1
Residential Real Estate	128.5	129.8	135.8	135.0	139.6
Consumer	73.1	74.3	77.8	75.8	83.3
Agriculture	65.5	68.2	68.2	75.8	70.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Oklahoma City, OK	70	15,734	< \$250 million	240 (87.6%)
Tulsa, OK	68	13,276	\$250 million to \$1 billion	28 (10.2%)
Fort Smith, AR-OK	23	3,514	\$1 billion to \$10 billion	5 (1.8%)
Lawton, OK	11	893	> \$10 billion	1 (0.4%)